

Message Text

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ACTION NEA-16

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 EB-11 CIEP-03 TRSE-00 STR-08 OMB-01

CEA-02 COME-00 FRB-03 XMB-07 OPIC-12 LAB-06 SIL-01

SAB-01 SAM-01 NIC-01 ACDA-19 DRC-01 /189 W

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R 081318Z AUG 74

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 3471

C O N F I D E N T I A L TEL AVIV 4520

E.O. 11652: GDS

TAGS: EFIN, IS

SUBJ: ISRAEL'S FOREIGN EXCHANGE RESERVES

REF: TEL AVIV A-156, JUNE 26, 1974

1. ISRAEL'S OFFICIAL FOREIGN EXCHANGE RESERVES CONTINUE TO DECLINE, REACHING \$1,415.6 MILLION AT END JUNE AND \$1,306.6 MILLION AT END JULY. (THESE FIGURES ARE GIVEN IN ACCORDANCE WITH OUR PRACTICE AS OUTLINED REPAIR; ISRAEL STATES RESERVES AS \$1,297.5 MILLION AND \$1,191.7 MILLION RESPECTIVELY.) THESE FIGURES EXCLUDE ABOUT \$1.5 BILLION HELD BY GMXMMERICAL BANKS, AND FINANCE MINISTRY DEPOSITS ABROAD.

2. EARLIER IN YEAR, NATIONAL BUDGET HAD FORECAST RESERVES WOULD DECLINE DURING 1974 BY \$850 MILLION FROM \$1,809.8 MILLION REACHED AT END OF 1973. DECLINE IN SEVEN MONTHS HAS BEEN ABOUT \$500 MILLION, WHICHEVER MEASURE IS USED. THERE HAS BEEN RECENT SPATE OF ARTICLES AND EDITORIALS CALLING ATTENTION TO DECLINE, REPORTING VIEW OF BANK OF ISRAEL THAT DECLINE WAS AT EXCESSIVE RATE AND THAT RESERVES HAD DROPPED BELOW "RED LINE." FINANCE MINISTER RABINOWITZ DENIED THIS AUGUST 7, CONTENDING DECLINE WAS

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IN ACCORDANCE WITH EARLIER EXPECTATIONS; HE DOUBTED THAT

RESERVES WOULD DROP MORE THAN \$800 MILLION.

3. DISCUSSION OF ADEQUACY OF RESERVES HAS TRADITIONALLY BEEN IN TERMS OF HOW MANY MONTHS OF IMPORTS RESERVES WOULD COVER. JERUSALEM POST EDITORIAL, AUGUST 8 FOR EXAMPLE, SAID THREE MONTHS WAS "CONVENIENT RULE OF THUMB," AND NOTED THAT THIS WOULD BE \$900 MILLION AT PRESENT. EDITORIAL ALSO SAID: "AUSTERITY POLICY LAUNCHED BY THE GOVERNMENT IS MEETING INCREASING OPPOSITION, PARTLY BECAUSE THE DIMENSIONS OF OUR ECONOMIC CRISIS HAS (SIC) NOT YET BEEN MADE TO PENETRATE THE PUBLIC CONSCIOUSNESS. IT IS TIME FOR A PRACTICAL AND URGENT PROGRAM DESIGNED TO PUT OUR HOUSE IN ORDER WHILE WE STILL HAVE TIME." EDITORIAL CALLED FOR RESTRAINT ON NONESSENTIAL IMPORTS.

4. IN ITS PRESENTATIONS TO USG, ISRAEL HAS BEEN INCONSISTENT ON SIZE OF RESERVES REQUIRED. PINK PAPER (JANUARY 1973) SAID RESERVES SHOULD BE LARGE ENOUGH TO FINANCE FOUR MONTHS' IMPORTS; GREEN PAPER (DECEMBER 1971) SAID 20 PERCENT OF YEAR'S IMPORTS; BLUE PAPER (SEPTEMBER 1969) SAID THREE MONTHS' IMPORTS. IT IS SIGNIFICANT, HOWEVER, THAT FINANCE MINSTER HIMSELF DOES NOT SEEM TO BE OVERLY CONCERNED ABOUT PRESENT TREND IN RESERVES.
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